

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 NEA-10 ISO-00 IO-10 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 INT-05

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P 180925Z AUG 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6617

INFO AMEMBASSY ISLAMABAD PRIORITY

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USADB

FOR NAC AGENCIES

E O 11652: ADS, DECLAS 2/18/76

TAGS: EAID, EFIN, PK

SUBJ: PROPOSED ADB LOAN FOR GAS TURBINE GENERATION
PROJECT (PAKISTAN)

REF: MANILA 8906

SUMMARY: ADB MANAGEMENT PROPOSES \$22 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO PAKISTAN TO FINANCE
FOREX COST OF CONSTRUCTING A GAS TURBINE GENERATING
STATION CONSISTING OF THREE OR FOUR UNITS OF GAS TURBINES
TOTALING APPROXIMATELY 90 MW; RELATED SUBSTATION AND
COMMUNICATION EQUIPMENT FOR INSTALLATION AT KORANGI TOWN
GRID SUBSTATION, AND CONSULTING SERVICES. PROJECT IS
EXTENSION OF PREVIOUS PROJECT FINANCED BY BANK IN 1972.
USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

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1. ADB DOC.R75-75 WITH ATTACHMENTS DESCRIBING
PROPOSED LOAN POUCHED ADDRESSEES AUG. 12. BOARD
CONSIDERATION SCHEDULED AUGUST 26.

2. ADB MANAGEMENT PROPOSING \$22 MILLION LOAN FROM
SPECIAL FUNDS RESOURCES TO GOVERNMENT OF PAKISTAN.
PROCEEDS WILL FINANCE FOREX COST CONSTRUCTING GAS
TURBINE GENERATING STATION AT KORANGI TOWN GRID
SUBSTATION (KARACHI METROPOLITAN AREA), INCLUDING
SUPPLY OF 3 OR 4 SIMPLE CYCLE GAS TURBINE UNITS
TOTALING 80 TO 100 MW; RELATED SUBSTATION AND
COMMUNICATION EQUIPMENT, CONSULTING SERVICES. PROPOSED
TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE
PERIOD, 1 PERCENT INTEREST. GOVERNMENT OF PAKISTAN
(GOP) TO BE BORROWER, KARACHI ELECTRIC SUPPLY CORPORA-
TION, LTD. (KESC) TO BE EXECUTING AGENCY. GOP WOULD
RELEND LOAN PROCEEDS TO KESC UNDER TERMS AND CONDITIONS
ACCEPTABLE TO BANK.

3. ELECTRIC POWER LOAD GROWTH IN KARACHI HAS BEEN HIGH
WITH SALES INCREASING OVER 13 PERCENT PER YEAR DURING
PAST 15 YEARS; PROJECTED DEMAND EXPECTED TO INCREASE
AVERAGE 14 PERCENT NEXT 8 YEARS. DUE TO LACK FIRM
GENERATING CAPACITY, LIMITED TRANSMISSION, DISTRIBUTION
FACILITIES, KESC HAS BEEN OBLIGED IN RECENT YEARS RESORT
TO LOAD SHEDDING DURING PEAK HOURS; DELAY INSTALLATION
FOR NEW INDUSTRIAL CUSTOMERS (50 MW) AND COMMERCIAL
CONSUMERS (9.4 MW) REQUESTING SERVICE.

4. IN ADDITION TO OTHER NEW INDUSTRIES BEING ESTABLISHED
IN KARACHI AREA, PAKISTAN STEEL MILLS NOW BEING BUILT
WITH USSR BILATERAL AID WILL START UP 1978/79, EVENTUALLY
REQUIRING 121 MW FROM KESC. ALSO, KESC SUPPLIES POWER
IN BULK TO NATIONAL WATER AND POWER AUTHORITY (WAPDA)
TO MEET DEMANDS HYDERABAD AREA; BULK SALES THERE TO
INCREASE FROM 187 GWH (MILLION WATT-HOURS) IN 1974 TO
355 GWH FROM 1982 ONWARDS.

5. KESC IS RESPONSIBLE FOR POWER SUPPLY ITS LICENSED
AREA 940 SQUARE MILES, WHILE WAPDA SERVICES REST OF
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PAKISTAN. KESC NOW HAS 340 MW INSTALLED CAPACITY,
MOSTLY NATURAL GAS OR FUEL OIL FIRED THERMAL UNITS;
ALSO OBTAINS BULK POWER FROM 125 MW CAPACITY KARACHI
NUCLEAR POWER PLANT (KANUPP). KORANGI THERMAL STATION,
LARGEST IN KESC SYSTEM NOW HAS THREE UNITS WITH OPERA-
TIONAL CAPACITY 245 MW. UNDER BANK'S PREVIOUS LOANS
TO KESC, FOURTH UNIT OF 125 MW NOW UNDER CONSTRUCTION
AT KORANGI, COMMISSIONING SCHEDULED FOR MID-1977.

6. SINCE 1971 COMMISSIONING, NUCLEAR STATION HAS BEEN UNRELIABLE, SUBJECT TO FREQUENT AND PROTRACTED OUTAGES, CAUSING DISLOCATION KESC'S POWER SYSTEM, NECESSITATING LOAD SHEDDING. AVAILABILITY FACTOR OF KANUPP 1973/74 WAS ONLY 71 PERCENT, ATTRIBUTED TO TECHNICAL PROBLEMS WITH SEA WATER COOLING AND STATION PROCESS COMPUTERS; EXODUS OF QUALIFIED PERSONNEL TO OVERSEAS JOBS. COOLING INTAKE STRUCTURE NOW BEING RE-DESIGNED; GOVERNMENT LEGISLATION DISCOURAGING DEPARTURES. THIS EXPECTED IMPROVE KANUPP AVAILABILITY FACTOR IN FUTURE. HOWEVER, INHERENT FEATURE OF NUCLEAR DESIGN PRECLUDES ACCEPTANCE OF FLUCTUATING LOADS HENCE PLANT MUST OPERATE AT UNDER CAPACITY FIXED LOAD NOT SUBJECT TO CHANGE DURING 24-HOUR SYSTEM DEMAND. ACCORDINGLY, KANUPP OUTPUT HAS SINCE 1974 BEEN FIXED AT 80 MW, REDUCING INSTALLED CAPACITY AVAILABLE TO KESC BY 45 MW AND FURTHER AGGRAVATING POWER SHORTAGES IN KARACHI.

7. GAS TURBINES TO BE INSTALLED UNDER PROPOSED PROJECT ARE CONSIDERED MOST TECHNICALLY APPROPRIATE NEXT ADDITION TO KESC SYSTEM REQUIRED TO MEET FORECAST LOAD GROWTH; WOULD BE USED PRIMARILY DURING PEAK LOAD HOURS, AND TO PROVIDE STAND-BY GENERATION CAPACITY. PROPOSED PROJECT CONSISTS OF: -) INSTALLATION OF THREE OR FOUR UNITS OF SIMPLY CYCLE GAS TURBINES (CONVERTIBLE LATER TO COMBINED CYCLE) DESIGNED FOR DUAL FUEL OPERATION, NATURAL GAS BEING PRIMARY FUEL AND LIGHT DIESEL OIL AS BACK-UP; B) ASSOCIATED SUBSTATION AND COMMUNICATION EQUIPMENT; AND C) CONSULTING SERVICES FOR PROJECT IMPLEMENTATION.

8. TOTAL PROJECT COST ESTIMATED AT \$30.9 MILLION
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EQUIVALENT. BANK PROPOSES TO FINANCE FOREX COST ESTIMATED AT \$22 MILLION, WHILE KESC WOULD MEET LOCAL COST OF \$8.9 MILLION EQUIVALENT FROM ITS LOCAL RESOURCES.

9. PROCUREMENT FOR GAS TURBINE STATION AND MAJOR ELECTRICAL EQUIPMENT ON BASIS INTERNATIONAL COMPETITIVE BIDDING IN ACCORD BANK'S GUIDELINES FOR PROCUREMENT WITH TWO MAJOR TURN-KEY CONTRACTS TO BE AWARDED FOR SUPPLY, DELIVERY, ERECTION AND COMMISSIONING OF A) THE GAS TURBINE STATION AND B) ELECTRICAL EQUIPMENT REQUIRED TO INTERCONNECT THE GAS TURBINE STATION INTO THE KESC GRID. CONTRACT TO EXCLUDE CIVIL WORKS WHICH BEING UNDERTAKEN SEPARATELY. GIVEN SMALL SCALE OF CIVIL WORKS (\$380,000 EQUIVALENT OF WHICH ONLY \$10,000 FOREX

COMPONENT), BIDDING TO BE RESTRICTED TO LOCAL CONTRACTORS
WITH CONTRACT TO BE SUBJECT TO BANK APPROVAL. MINOR
EQUIPMENT CONTRACTS LESS THAN \$100,000 ON BASIS
INTERNATIONAL SHOPPING (SIDE LTR. NO. 2, PAR. 6).
WITH PRIOR BANK APPROVAL (REFTEL REFERS), KESC ISSUED
TENDER DOCS. FOR PROJECT 1ST JULY, 1975. FYI: AT TIME
OF BANK APPROVAL ADVANCE TENDER ISSUANCE, LOCAL REPRESENTATIVES OF WESTINGHOUSE AND GE NOTIFIED BY USADB.
END FYI.

10. UNDER PREVIOUS BANK TECHNICAL ASSISTANCE (TA)
TO KESC, CONSULTANT'S TERMS OF REFERENCE INCLUDED
EXAMINATION VARIOUS ASPECTS GAS TURBINE GENERATION NOW
PROPOSED FOR BANK FINANCING. CONSULTANTS EXAMINED
FEASIBILITY FOR GAS TURBINE GENERATION IN KARACHI AREA
AND REVIEWED TENDER DOCS. PROPOSED PROJECT BEFORE THEIR
ISSUANCE BY KESC ON 1 JULY, 1975. ACCORDINGLY, KESC
PROPOSED AND BANK RECOMMENDS ADDITIONAL 12 MAN/MONTHS
OF CONSULTING SERVICES REQUIRED FOR PROJECT IMPLEMENTATION, INCLUDING BID EVALUATIONS, RECOMMENDED AWARDS,
REVIEW OF CIVIL WORKS, CONSTRUCTION SUPERVISION, SUPERVISION OF COMMISSIONING AND ACCEPTANCE TESTING, ETC.,
BE NEGOTIATED AS ADD-ON TO EXISTING TA CONSULTANT

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OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 INT-05

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P 180921Z AUG 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6618

INFO AMEMBASSY ISLAMABAD PRIORITY

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CONTRACT. FIRM UNDER CURRENT BANK TA IS FICHTNER CONSULTING ENGINEERS, STUTTGART (FRD).

11. PROPOSED PROJECT LOCATION ABOUT 1 MILE FROM MAIN WPAINCH PIPELINE KARACHI GAS COMPANY. NATURAL GAS SUPPLY OF PROJECT TO BE PROVIDED BY T-BRANCH FROM THIS PIPELINE, TO BE FINANCED AND INSTALLED BY KARACHI GAS COMPANY (SIDE LTR. NO. 4, PARM OLM GAS TURBINE STATION WILL INCLUDE GAS COMPRESSOR TO STEP UP PRESSURE TO 225 POUNDS/SQUARE INCH REQUIRED AT TURBINE INLET. ALSO WITHIN ONE MILE, NATIONAL REFINERY LTD. MAINTAINS STOCKS OF LIGHT DIESEL OIL; PROJECT SITE STORAGE DIESEL OIL SUFFICIENT FOR 50 HOURS CONTINUOUS FULL LOAD OPERATION TO BE PROVIDED.

12. KESC, EXECUTING AGENCY, IS CONSIDERED WELL-MANAGED AND EFFICIENT, HAS SUCCESSFULLY IMPLEMENTED POWER EXPANSION PROGRAMS IN KARACHI AREA WITH ASSISTANCE OF LBRD, USAID AND ADB. KESC DOES HAVE STAFF SHORTAGES, HAS BEEN LOSING QUALIFIED PERSONNEL TO MIDDLE-EAST. LIMITED OFFICIAL USE

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IMPLEMEENTATION BY KESC ADB'S PREVIOUS LOAN PROJECT FOR 125 MW THERMAL UNIT AT KORANGI GENERALLY SATISFACTORY, NOW SCHEDULED FOR COMMISSIONING MID-1977, ABOUT A 12-MONTH DELAY ATTRIBUTED TO COST OVERRUN AND PROCUREMENT DIFFICULTIES. KESC COMPLIANCE WITH COVENANTS UNDER ORIGINAL AND SUPPLEMENTARY LOAN GENERALLY SATISFACTORY, HOWEVER PERFORMANCE RE FINANCES, TARIFF AND SELF-FINANCING RATIO DISCUSSED BELOW.

13. DESPITE RUPEE DEVALUATION MAY 1972, AND LATE 1973 OIL CRISIS WHICH INCREASED KESC FINANCIAL BURDEN, KESC HAS MAINTAINED ADEQUATE DEBT SERVICE COVERAGE. RETURN ON NET FIXED ASSETS FELL FROM 10.5 PERCENT (1971) TO 5.1 PERCENT IN 1972, HAD RECOVERED TO 8.3 PERCENT BY 1974. SELF-FINANCING RATIO FOR 1972-74 PERIOD AT 27 PERCENT, COMPLIES WITH BANK REQUIREMENT TO MAINTAIN 25 PERCENT UNDER PREVIOUS LOAN.

14. RECENT ADJUSTMENTS BY SELECTIVE SURCHARFE ON TARIFFS (EXCEPT FOR DOMESTIC AND AGRICULTURAL USERS) HAVE LARGELY OFFSET INCREASED FUEL OIL COSTS; KESC REMAINS REASONABLY PROFITABLE. TO MEET INTERNAL LIQUIDITY AND DEBT SERVICE NEEDS, UTILITY IS CONSIDERING ABOUT 10 PERCENT TARIFF INCREASE MID-1976; ADDITIONAL 6 PERCENT BEGINNING 1980. RATE OF RETURN ON AVERAGE NET FIXED

ASSETS EXPECTED TO IMPROVE FROM 8.3 PERCENT IN 1974 TO 12 PERCENT BY 1983; DEBT SERVICE RATIO TO BE NO LESS THAN 1.9, CONSIDERED A SATISFACTORY LEVEL. CASH FLOW POSITIONN GIVEN HEAVY DEVT-FINANCED INVESTMENT PROGRAM, EXPECTED TO VECOME INCREASINGLY TIGHT IN ENSUING 5 YEARS WITH DEBT/EQUITY RATIO WEAKENING FROM 66:34 IN 1974 TO 73:27 IN 1983. HOWEVER, BANK CONSIDERS THIS STILL ACCEPTABLE IN VIEW OF KESC'S SOUND FINANCIAL PERFORMANCE IN PAST. ADDORDINGLY, RIGOROUS SELF-FINANCING RATIO ESTABLISHED UNDER PRIOR ADB LOAN TO BE RELAXED AND FORMULA MORE GENERALLY USED BY BANK TO BE ADOPTED FOR PROPOSED LOAN (SIDE LTR. NO. 4, PARS. 3 AND 4).

15. BANK CONSIDERS PROJECT TECHNICALLY FEASIBLE, FINANCIALLY AND ECONOMICALLY SOUND. ECONOMIC INTERNAL RATE OF RETURN ESTIMATED AT 19 PERCENT. GOVERNMENT LIMITED OFFICIAL USE

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WILL COMMIT TO SUPPLY ASSURED FUTURE ALLOCATION OF NATURAL GAS SO KESC CAN DETERMINE SPECS FUTURE BASELOAD STATIONS; KESC AND PAKISTAN ATOMIC ENERGY (PAEC) COMMISSION WILL ENTER INTO FIRM AGREEMENT FOR FIXED AND GUARANTEED SUPPLY OF POWER FROM KANUPP AT RATE NOT EXCEEDING AVERAGE COST OF THERMAL POWER GENERATION (COVENANT FIRST CONTAINED IN BANK'S PREVIOUS LOANS TO KESC; FOR PROPOSED LOAN, SIDE LTR. NO. 4, PAR. 5 (C) REFERS). USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

16. REQUEST ISLAMABAD COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972. SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TURBINE COMPONENTS, PROGRAMS (PROJECTS), DEVELOPMENT LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA11443
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750284-0729
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750844/aaaabmeb.tel
Line Count: 314
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 MANILA 8906
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2003 by GolinoFR>; APPROVED <16 MAY 2003 by GarlanWA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN FOR GAS TURBINE GENERATION PROJECT (PAKISTAN)
TAGS: EAID, EFIN, PK, RP, ADB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006